2007

# Annual Report

## State Government Insurance Corporation

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## STATEMENT OF COMPLIANCE TO THE MINISTER

To the Hon. Ljiljanna Ravlich, MLC
Minister for Local Government; Racing and Gaming;
Multicultural Interests and Citizenship; Government Enterprises;
Minister Assisting the Minister for Planning and Infrastructure;
Goldfields–Esperance; Youth

In accordance with Section 61 of the *Financial Management Act 2006*, we hereby submit for your information and presentation to Parliament, the Annual Report of the State Government Insurance Corporation for the financial year ended 30 June 2007.

This Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006* and the *Insurance Commission of Western Australia Act 1986*.

**VIC EVANS**
**CHAIRMAN**
**STATE GOVERNMENT INSURANCE CORPORATION**
12 September 2007

**MICHAEL E WRIGHT**
**DEPUTY CHAIRMAN**
**STATE GOVERNMENT INSURANCE CORPORATION**
12 September 2007

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation, passed on 12 September 2007.

# OVERVIEW

## Executive Summary

### CHAIRMAN'S REVIEW

For the financial year ending 30 June 2007, the State Government Insurance Corporation (Corporation) recorded an operating profit before tax of $1.64 million (2006: $230,000).

As reported previously, the Corporation ceased trading in 1992 and the Insurance Commission's RiskCover Division's Reinsurance and Underwriting Section is responsible for "running-off" the business.

As the Corporation is in "run-off", the only premium income it generates is from adjustments and reinstatements. This financial year, income was generated from:

- A $1.15 million interest payment which arose from an economic benefit the Corporation provided to the Insurance Commission by way of deferred tax assets, which resulted from prior year tax losses by the Corporation (AIFRS AASB 112 requires the Corporation to recognise $18.5 million as an inter-company receivable);
- Premium adjustments for unclosed business.

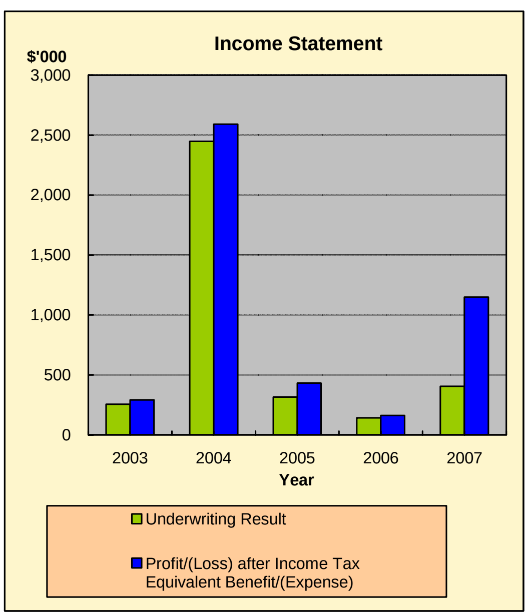
Due to the heavy liability weighting in the original portfolio and the advanced level of the "run-off", a high degree of uncertainty remains regarding the final outcome.

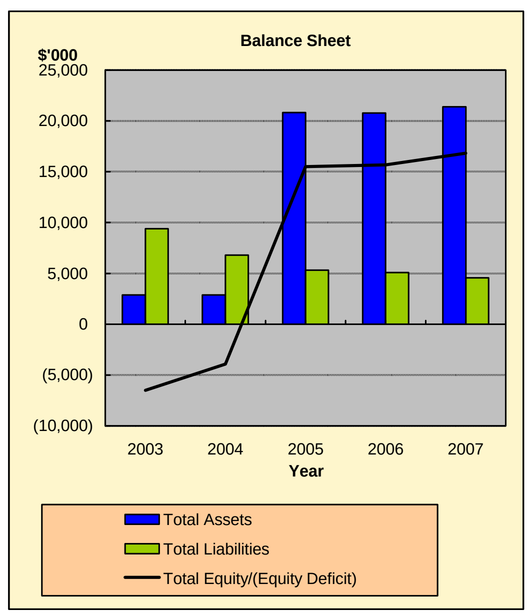
Ongoing reviews regarding the Corporation's future, such as commutation, continues to be considered.

**VIC EVANS**
**CHAIRMAN**

## FINANCIAL OVERVIEW – STATE GOVERNMENT INSURANCE CORPORATION

| INCOME STATEMENT | AIFRS | | | AGAAP (i) | |
|---|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2005 $'000 | 2004 $'000 | 2003 $'000 |
| **Net Premium Revenue** | 150 | (128) | 190 | (105) | 307 |
| Claims Incurred Credit | 415 | 433 | 310 | 2,525 | 127 |
| Reinsurance and Other Recoveries | (4) | (6) | (13) | 192 | 5 |
| **Net Claims Incurred Credit** | **411** | **427** | **297** | **2,717** | **132** |
| Acquisition Benefits/(Costs) | (10) | 10 | (13) | - | - |
| Underwriting and Administration Expenses | (147) | (167) | (159) | (164) | (185) |
| **Underwriting Result** | **404** | **142** | **315** | **2,448** | **254** |
| Other Income | 1,238 | 88 | 82 | 144 | 37 |
| **Profit/(Loss) before Income Tax Equivalent Benefit/(Expense)** | **1,642** | **230** | **397** | **2,592** | **291** |
| Income Tax Equivalent Benefit/(Expense) | (493) | (69) | 34 | - | - |
| **Profit/(Loss) after Income Tax Equivalent Benefit/(Expense)** | **1,149** | **161** | **431** | **2,592** | **291** |
| **BALANCE SHEET** | | | | | |
| Other Assets | 21,384 | 20,769 | 20,838 | 2,873 | 2,875 |
| **Total Assets** | **21,384** | **20,769** | **20,838** | **2,873** | **2,875** |
| Outstanding Claims Liability | 4,059 | 4,649 | 5,233 | 6,742 | 9,373 |
| Other Liabilities | 503 | 447 | 93 | 50 | 13 |
| **Total Liabilities** | **4,562** | **5,096** | **5,326** | **6,792** | **9,386** |
| **Net Assets/(Liabilities)** | **16,822** | **15,673** | **15,512** | **(3,919)** | **(6,511)** |
| Share Capital | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Retained Earnings | (83,178) | (84,327) | (84,488) | (103,919) | (106,511) |
| **Total Equity/(Equity Deficit)** | **16,822** | **15,673** | **15,512** | **(3,919)** | **(6,511)** |




**(i)** Amounts are stated under Australian Generally Accepted Accounting Practices (AGAAP) prior to 2005, and are not restated for the purpose of Australian Equivalents to International Financial Reporting Standards (AIFRS).

# OPERATIONAL STRUCTURE

## About the State Government Insurance Corporation

The State Government Insurance Corporation (the Corporation) is a wholly owned subsidiary of the Insurance Commission of Western Australia. The Corporation remains in existence mainly to run-off small lines of Australian and overseas reinsurance business it wrote between 1988 and 1992. The Insurance Commission's RiskCover Division's Reinsurance and Underwriting Section is responsible for the management of the run-off of the business.

## History

In 1987, the State Government Insurance Commission (SGIC) and the State Government Insurance Corporation, trading as SGIO, were established following the merging of the Motor Vehicle Insurance Trust and the State Government Insurance Office, and the passage of enabling legislation. The combined organisation grew to approximately 1,100 staff. In 1988–1989 the segregation of government and motor vehicle third party, and non-government business, began. The SGIO took on the non-government business and was privatised in 1994.

## Enabling Legislation

The State Government Insurance Corporation was established as a statutory authority under Part III, Division I, Section 28 of the *Insurance Commission of Western Australia Act 1986* on 5 August 1986 and operates in accordance with this Act and the *Insurance Commission of Western Australia Amendment Act 2002* (no. 34 of 2002).

## Responsible Minister

The Hon. Ljiljanna Ravlich, MLC, Minister for Local Government; Racing and Gaming; Multicultural Interests and Citizenship; Government Enterprises; Minister Assisting the Minister for Planning and Infrastructure; Goldfields–Esperance; Youth, is the Minister responsible for the State Government Insurance Corporation in her capacity as Minister for Government Enterprises.

Minister Ravlich took over from the Hon. Eric Ripper MLA, Deputy Premier, Treasurer, Minister for State Development as Minister for Government Enterprises on 13 December 2006.

## Relationship with Government of Western Australia

As a wholly-owned subsidiary of the Insurance Commission, the State Government Insurance Corporation is an Agent of the Crown in right of the State and has the status, immunities and privileges of the Crown, except as otherwise prescribed in the *Insurance Commission of Western Australia Act 1986*.

## Organisation Structure

The Corporation is managed by the Insurance Commission's RiskCover Division - Reinsurance and Underwriting Section.

## BOARD OF DIRECTORS

The Board of Directors of the State Government Insurance Corporation has been appointed in accordance with the *Insurance Commission of Western Australia Act 1986.* The Board as at 30 June 2007 comprised:

**VIC EVANS Dip Bus Mgt**
**Chairman of the Board of Directors**
Managing Director, Insurance Commission of Western Australia

Expiry of present term: 21 June 2009

**MICHAEL E WRIGHT FAICD**
**Deputy Chairman**
Chairman, Insurance Commission of Western Australia
Director, CCK Financial Services Limited
Director, Wesbeam Holdings Limited Group

Expiry of present term: 30 November 2007

**PETER D EASTWOOD AM FCA, FAICD**
**Director**
Commissioner, Insurance Commission of Western Australia
Consultant, Grant Thornton Chartered Accountants
Director, Unimutual Limited
Director Unimutual Insurance (NZ) Limited

Expiry of present term: 30 September 2008

**ANNEMIE MCAULIFFE MLS, Dip Ed, CMC**
**Director**
Commissioner, Insurance Commission of Western Australia
Board Member, WA Potato Marketing Corporation
Chair, WA Telecentres Advisory Council

Expiry of present term: 31 December 2007

**SHARON BROWN**
**Director**
Commissioner, Insurance Commission of Western Australia
Director, Rottnest Island Authority
Councillor, Technology and Industry Advisory Council WA
Councillor, Defence Reserves Support Council
Director, Federal Industry Research and Development Board

Expiry of present term: 30 November 2007

**DIRECTORS' ATTENDANCE AT MEETINGS 2006–2007**

**Board of Directors (Total of 13 Meetings)**

| Director | Number of Meetings Attended |
|---|---|
| Vic Evans | 13 |
| Michael E Wright | 12 |
| Peter D Eastwood | 12 |
| Sharon Brown | 7 |
| Annemie McAuliffe | 10 |

**REMUNERATION**

The non-Executive Directors of the Corporation do not receive any fees as Directors of the Corporation.

# AGENCY PERFORMANCE – REPORT ON OPERATIONS

The Corporation inwards reinsurance business has now been in run-off for 15 years and claims activity has dropped to a very low level, with general administration of the Corporation now utilising a greater level of resources than claims processing. A small number of inactive claims were finalised during the year after enquiry established that they would not proceed.

# SIGNIFICANT ISSUES AND TRENDS

The provision for future administration expenses is now a significant component of the overall provision for outstanding claims and expenses, increasing the financial attraction of commuting the major risks underwritten. The Corporation will actively explore commutation prospects during 2007–2008.

## Changes in written law

The *Financial Administration and Audit Act 198*5 was replaced by the *Financial Management Act 2006* and a separate *Auditor General Act 2006*. The principal objective of this was to enhance accountability for financial and management practices and outcomes by agencies and to make the new legislation more reflective of the current environment.

# DISCLOSURES AND LEGAL COMPLIANCE

## Other Financial Disclosures

As a wholly-owned subsidiary of the Insurance Commission of Western Australia, the Corporation's Other Financial Disclosures, including Pricing Policies of services provided; Capital works; and Employment and Industrial Relations, are reported on in the Insurance Commission of Western Australia Annual Report 2006–2007.

## Ministerial Directives

Section 10 of the *Insurance Commission of Western Australia Act 1986* empowers the Minister responsible for the Insurance Commission to give directions in writing to the Insurance Commission and/or and any of its Statutory Corporations (i.e. the Corporation) with respect to its functions, powers and duties, either generally or with respect to a particular matter. The Insurance Commission and/or its subsidiaries are then required to give effect to those directions and to include the text of any direction received in its Annual Report.

The State Government Insurance Corporation did not receive any ministerial directives during 2006–2007.

## Government Disclosures

### Disclosure of interest in an existing or proposed contract

During 2006–2007, there was one disclosure of pecuniary interest by a Director. Director McAuliffe disclosed that her husband is a Senior Consultant to Downings Legal, a legal services contractor to the Insurance Commission, which wholly owns the State Government Insurance Corporation as a subsidiary.

## Other Legal Requirements and Government Policy Requirements

As a wholly-owned subsidiary of the Insurance Commission of Western Australia, the Corporation's Government Disclosures; Other Legal Requirements; and Government Policy Requirements are reported on in the *Insurance Commission of Western Australia Annual Report 2006–2007*.

2007

# Financial Statements

State Government Insurance Corporation

# FINANCIAL STATEMENTS 2007 INDEX

## CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE BOARD AND CHIEF FINANCE OFFICER

**State Government Insurance Corporation**

The accompanying financial statements of the State Government Insurance Corporation have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2007 and the financial position as at 30 June 2007.

At the date of signing we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.

**VIC EVANS**
**CHAIRMAN**
12 September 2007

**MICHAEL E WRIGHT**
**DEPUTY CHAIRMAN**
12 September 2007

**KEITH THOMPSON**
**ACTING CHIEF FINANCE OFFICER**
12 September 2007

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 12 September 2007.

AUDITOR **GENERAL**

**INDEPENDENT AUDIT OPINION**

**To the Parliament of Western Australia**

**STATE GOVERNMENT INSURANCE CORPORATION**
**FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS**
**FOR THE YEAR ENDED 30 JUNE 2007**

I have audited the accounts, financial statements, controls and key performance indicators of the State Government Insurance Corporation.

The financial statements comprise the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, a summary of significant accounting policies and other explanatory Notes.

The key performance indicators consist of key indicators of effectiveness and efficiency.

**Corporation's Responsibility for the Financial Statements and Key Performance Indicators**

The Corporation is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions, and the key performance indicators. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements and key performance indicators that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and complying with the Financial Management Act 2006 and other relevant written law.

**Summary of my Role**

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements, controls and key performance indicators based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf".

An audit does not guarantee that every amount and disclosure in the financial statements and key performance indicators is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements and key performance indicators.

## Audit Opinion

In my opinion,

(i) the financial statements are based on proper accounts and present fairly the financial position of the State Government Insurance Corporation at 30 June 2007 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions;

(ii) the controls exercised by the Corporation provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and

(iii) the key performance indicators of the Corporation are relevant and appropriate to help users assess the Corporation's performance and fairly represent the indicated performance for the year ended 30 June 2007.

COLIN MURPHY
AUDITOR GENERAL
12 September 2007

# INCOME STATEMENT

## for the year ended 30 June 2007

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| Premium Revenue | **5** | **150** | (128) |
| Net Premium Revenue | | **150** | (128) |
| Claims Incurred Credit | **6** | **415** | 433 |
| Reinsurance and Other Recoveries Expenses | **5** | **(4)** | (6) |
| Net Claims Incurred Credit | **7** | **411** | 427 |
| Acquisition Benefits/(Costs) | **6** | **(10)** | 10 |
| Underwriting and Administration Expenses | **6** | **(147)** | (167) |
| **UNDERWRITING RESULT** | | **404** | 142 |
| Other Income | **5** | **1,238** | 88 |
| **PROFIT BEFORE INCOME TAX EQUIVALENT BENEFIT/(EXPENSE)** | | **1,642** | 230 |
| Income Tax Equivalent Benefit/(Expense) | **8** | **(493)** | (69) |
| **PROFIT AFTER INCOME TAX EQUIVALENT BENEFIT/(EXPENSE)** | | **1,149** | 161 |

The Income Statement should be read in conjunction with the Notes to and forming part of the financial statements.

# BALANCE SHEET

## at 30 June 2007

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | **13,21** | **2,343** | 1,528 |
| Receivables | **9** | **10** | 200 |
| **Total Current Assets** | | **2,353** | 1,728 |
| **Non-Current Assets** | | | |
| Receivables | **9** | **18,523** | 18,527 |
| Deferred Tax Assets | **8** | **508** | 514 |
| **Total Non-Current Assets** | | **19,031** | 19,041 |
| **TOTAL ASSETS** | | **21,384** | 20,769 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Payables | **10** | **503** | 447 |
| Outstanding Claims Liability | **12** | **611** | 681 |
| **Total Current Liabilities** | | **1,114** | 1,128 |
| **Non-Current Liabilities** | | | |
| Outstanding Claims Liability | **12** | **3,448** | 3,968 |
| **Total Non-Current Liabilities** | | **3,448** | 3,968 |
| **TOTAL LIABILITIES** | | **4,562** | 5,096 |
| **NET ASSETS** | | **16,822** | 15,673 |
| **EQUITY** | | | |
| Share Capital | **11** | **100,000** | 100,000 |
| Retained Earnings | | **(83,178)** | (84,327) |
| **TOTAL EQUITY** | | **16,822** | 15,673 |

The Balance Sheet should be read in conjunction with the Notes to and forming part of the financial statements.

# STATEMENT OF CHANGES IN EQUITY

## for the year ended 30 June 2007

| | | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **BALANCE OF EQUITY AT START OF THE YEAR** | | **15,673** | 15,512 |
| **SHARE CAPITAL** | | | |
| Balance at Start of the Year | | **100,000** | 100,000 |
| Balance at End of the Year | **11** | **100,000** | 100,000 |
| **RETAINED EARNINGS** | | | |
| Balance at Start of the Year | | **(84,327)** | (84,488) |
| Profit for the Year | | **1,149** | 161 |
| Balance at End of the Year | | **(83,178)** | (84,327) |
| **BALANCE OF EQUITY AT END OF THE YEAR** | | **16,822** | 15,673 |

The Statement of Changes in Equity should be read in conjunction with the Notes to and forming part of the financial statements.

## CASH FLOW STATEMENT

**for the year ended 30 June 2007**

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Premiums Received | | **357** | 160 |
| Reinsurance and Other Recoveries Received | | **-** | (1) |
| Interest Received | | **1,238** | 88 |
| Claims Paid | | **(615)** | (102) |
| Underwriting and Administration Expenses Paid | | **(165)** | (150) |
| **Net Cash Used In Operating Activities** | **21** | **815** | (5) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **815** | (5) |
| **CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR** | | **1,528** | 1,533 |
| Effects of Exchange Rate Changes on the Balance of Cash Held in Foreign Currencies | | **-** | - |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **21** | **2,343** | 1,528 |

The Cash Flow Statement should be read in conjunction with the Notes to and forming part of the financial statements.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

To facilitate a better understanding of the financial statements, presented below are the significant accounting policies adopted by the State Government Insurance Corporation (Corporation) in the preparation of the financial statements.

**(a) Australian Equivalents to International Financial Reporting Standards**

The financial statements for the year ended 30 June 2007 have been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS) which comprise A Framework for the Preparation and Presentation of Financial Statements (Framework), and Australian Accounting Standards (including the Australian Accounting Interpretations).

In preparing these financial statements the Corporation has adopted where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the Australian Accounting Standards Board (AASB).

**(b) Early Adoption of Standards**

The Corporation cannot early adopt an Australian Accounting Standard or Interpretation unless specifically permitted by TI 1101, Application of Australian Accounting Standards and Other Pronouncements. No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by the Authority for the annual reporting period ended 30 June 2007.

**(c) General Statement**

These financial statements to 30 June 2007 constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. Such modifications are intended to provide certainty and ensure consistency and appropriate reporting across the public sector. These modifications do not result in a departure from AIFRS.

Where modification is required and has a material or significant effect upon the reported results, details of that modification and the resulting financial effect are disclosed in individual notes to the accounts.

The *Financial Management Act 2006* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

**(d) Basis of Preparation**

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention, except for certain assets and liabilities which, as noted, are measured at fair value.

The Financial Statements are presented in Australian dollars and in accordance with *Treasurer's Instruction 948*, all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

The judgements that have been made in the process of applying the Entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at Note 2, Critical Accounting Judgements and Estimates.

Key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date that have significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed at Note 3, Actuarial Assumptions and Methods.

The financial statements have been prepared on the assumption that the economic entity is a 'going concern', will continue its business operations in the normal manner and that it will be able to meet its liabilities as and when they fall due.

The Corporation is an Agent of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986.*

**(e) Disclosure of changes in accounting policy**

There are no changes in accounting policies which impact on the financial statements of the Corporation.

**(f) Principles of General Insurance Business**

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The General Insurance activities of the Corporation consist of all transactions arising from writing General Insurance contracts.

**(g) Principal Activities**

The Corporation ceased writing Inwards Reinsurance in August 1992. During the financial year the Corporation's only activity has been the further run-off of this operation.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Income Tax Effect Accounting

The economic entity operates within the National Tax Equivalent Regime (NTER). All Funds of the economic entity are subject to the NTER, except for the Government Insurance Fund.

The purpose of the NTER is to achieve competitive neutrality between government and privately owned trading enterprises by ensuring that they bear similar tax-based imposts.

The calculation of the liability in respect of the income tax equivalent is governed by the NTER guidelines and directions approved by government.

As a consequence of participation in the NTER, the entity is required to comply with AASB 112, Income Taxes.

**Current Tax**

Current tax is calculated by reference to the amount of income tax payable or recoverable, to or from the Australian Taxation Office (ATO). The tax rates and tax laws used to compute the amount are those that are enacted at balance date.

**Deferred Tax**

Deferred tax is accounted for using a comprehensive balance sheet liability approach whereby accounts taken if temporary differences between the carrying amounts in the balance sheet and their corresponding tax base.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amounts of all deferred income tax assets are reviewed at balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at balance date and are recognised only to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at tax rates expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and laws enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not through profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**Tax Consolidation**

On 26 February 2003, the Board of Commissioners of the Commission and the Board of Directors of the Corporation resolved that the Corporation would join the Insurance Commission (the tax consolidation parent entity) in a tax consolidation group with effect from 1 July 2002.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits arising from the Corporation are recognised by the Insurance Commission (as head entity of the tax-consolidated group).

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts in the separate

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

financial statements of each entity and the tax values applying under tax consolidation.

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the Commission and Corporation in accordance with the arrangement.

The tax equivalent sum, payable to the State Department of Treasury and Finance in respect of each financial year, is equal to the amount of any income tax for which the tax consolidation parent entity would have been liable in respect of the financial year if it were not exempt from that tax under the relevant Commonwealth Act.

### (i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST payable to, or recoverable from, the ATO is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed gross of amounts recoverable from, or payable to, the ATO.

### (j) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised.

- **Premium Revenue**

  Premium revenue comprises amounts charged to other insurers. Stamp duty and other amounts collected on behalf of third parties are excluded. Premiums on unclosed business are brought to account as revenue, based upon an actuarial assessment. As the periods of cover provided by all underwritten contracts have now expired, all premium is earned, whether on closed or unclosed business.

- **Reinsurance and Other Recoveries Revenue**

  Reinsurance and other recoveries on paid claims, claims reported but not paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries receivable for long-tail classes of insurance are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of discount and inflation rates used are set out in Note 3.

- **Interest Income**

  Interest income is recognised as the interest accrues, based on the effective interest method.

- **Foreign Exchange Revenue**

  Refer Note 1(l) – "Foreign Currencies".

### (k) Outwards Reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

### (l) Foreign Currencies

- The functional and presentation currency of the economic entity and its subsidiary is Australian dollars (A$).

  Transactions of the Corporation denominated in foreign currencies are converted to Australian currency at the rates of exchange ruling at the dates of the transactions.

- Assets and liabilities of the Corporation denominated in foreign currencies at balance date were, where appropriate, converted to Australian currency using rates of exchange ruling at that date. Resulting exchange differences are recorded as exchange gains or losses in the Income Statement in that financial year.

### (m) Claims

Claims expense represents payment for claims and the movement in outstanding claims liabilities.

### (n) Unexpired Risk Liability

The Corporation is in run-off and hence there is no unearned premium. As a result neither a Liability Adequacy Test or Unexpired Risk Liability is required.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Assets Backing General Insurance Liabilities

All assets are held to back general insurance liabilities.

Financial assets held to back General Insurance liabilities are valued at fair value in the Balance Sheet.

The management of financial assets, General Insurance liabilities and policy liabilities are closely monitored to ensure that investments are appropriate given the expected pattern of future cash flows arising from General Insurance liabilities and policy liabilities.

Assets Backing General Insurance Liabilities are discussed in more detail under the relevant Balance Sheet headings in this Accounting Policy note.

### (p) Outstanding Claims

The liability for outstanding claims at balance date comprises:

- claims that have been reported but not paid,
- IBNR claims,
- IBNER claims,

together with the anticipated direct and indirect claims' settlement costs.

The liability for outstanding claims is the present value of an adjusted "central estimate" of future claim payments (including claims management expenses), which is affected by factors arising during the period to settlement such as normal (e.g. wage) inflation and "superimposed" inflation. Superimposed inflation refers to factors like trends in court awards and changes in legislation, for example increases in the level and period of compensation for injury. The expected future claims payments are then discounted to a present value at balance date using market-determined risk- adjusted discount rates.

The details of discount and inflation rates used are set out in Note 3.

The liability for outstanding claims is estimated following an independent actuarial assessment. Inwards Reinsurance is a long-tail class of insurance. Long-tail claims are typically not settled within one year of the occurrence of the events giving rise to those claims. Protracted legal proceedings may be involved to resolve the issues of negligence or liability and/or to establish the amount of claims' settlement.
In determining the liability for outstanding claims the Board has added a prudential margin to the central estimate of the discounted future claims payments. The prudential margin provides for a higher degree of certainty that the estimated liability will be adequate to cover possible adverse developments. The degree of certainty required by the Board has been achieved by adding a prudential margin to the central estimates of claims liabilities that allows for a 75% (2006 -75%) level of confidence. Refer Note 12.

### (q) Receivables

Receivables are reviewed as to their collectability on an ongoing basis. Debts which are known to be not collectable are written off. A provision for impairment is raised, where some doubt as to collection exists.

### (r) Payables

Payables, including accruals not yet billed, are carried at cost and recognised when the entity becomes obliged to make future payments as a result of a purchase of assets or services. Current payables are generally settled within 30 days.

### (s) Fair Value of Financial Assets and Liabilities

Fair values of financial assets and liabilities are determined on the following basis:

- **Recognised Financial Assets**

  For financial assets traded in an organised market, fair value equates to market value.

  Where financial assets are not traded in an organised market, fair value is the historical carrying cost net of any provision for diminution in value or impairment.

- **Recognised Financial Liabilities**

  Where financial liabilities are not traded in an organised market, fair value is the historical carrying value.

- **Unrecognised Financial Assets and Financial Liabilities**

  For unrecognised financial assets and liabilities traded in an organised market, fair value equates to market value.

### (t) Cash

Cash and cash equivalent assets are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets approximate to their fair value.

For the purpose of the Cash Flow Statement, cash includes cash on hand and in banks, which are integral to the Corporation's general insurance activities.

### (u) Management Fee

The Corporation is charged a management fee in proportion to its usage of the Insurance Commission's services.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Other Corporate Information

The Corporation is an Agent of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*.

**Principal Place of Business:**
State Government Insurance Corporation
The Forrest Centre
221 St George's Terrace
PERTH WA 6000

**Postal Address:**
GPO Box U1908
PERTH WA 6845

| | |
|---|---|
| **Telephone:** | +61 (8) 9264 3333 |
| **Facsimile:** | +61 (8) 9264 3690 |
| **Email:** | customer@icwa.wa.gov.au |
| **Websites:** | www.icwa.wa.gov.au |

**Corporate Secretary:**
Mr. Ken McAullay

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Corporation makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key area in which critical estimates are applied is the Provisions for Outstanding Claims Liability.

Provisions are made at the year end for the outstanding claims which appear as liabilities in the Balance Sheet. This is the cost of claims incurred but not settled at balance date, including the cost of claims incurred but not yet reported (IBNR) and claims incurred but not enough reported (IBNER). Estimations are also made in respect of all recoveries, including reinsurance (which appear in the Balance Sheet at Note 9 as Receivables), claims management expenses, and a risk margin.

Whilst all reasonable steps are taken to ensure that adequate information is obtained regarding outstanding claims exposures, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. In particular, the estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of claims already notified, where generally, more information about the claims is available. IBNR claims may not be lodged until many years after the events giving rise to the claims have occurred.

The estimate of liability for outstanding claims is based upon independent actuarial valuation employing a number of actuarial models, which utilise statistical analyses of historical experience, and which assume that the development pattern of the current claims will be consistent with past experience.

Allowances are also made, where appropriate, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. These include:

- Changes in claims management processes which might accelerate or retard the development and/or recording of paid or incurred claims, compared with the statistics from previous periods.
- Changes in the legal environment or social attitudes.
- The effects of inflation.

Refer Note 3 for details of specific assumptions used in deriving the outstanding claims liability at year end

## 3. ACTUARIAL ASSUMPTIONS AND METHODS

To estimate claims liability, the portfolio has been divided into a number of groups based on the types of risks covered, the nature of the reinsurance treaties, and the currency in which the treaties have been denominated.

Actuarial models have been constructed to describe the rate of development of incurred losses. These models were constructed by considering a mix of the insurer's own experience as well as the experience of other similar portfolios. The models of incurred loss development are applied to losses incurred to balance date to give estimates of incurred losses, as they will ultimately stand (ultimate incurred losses) for each underwriting year ending 30 June. This is done separately by line of business, currency and underwriting year. Losses paid to balance date are deducted from the ultimate incurred losses, to give the outstanding claims liability at balance date.

Models of the ratio of paid to incurred losses are applied to the outstanding claims liability at balance date to project gross claim payment cash flows, as they fall due in future years.

The claim payment cash flows are discounted using risk free rates in anticipation of future investment return to give a discounted estimate of gross outstanding claims at balance date. An estimate of outstanding retrocession recoveries is made according to Corporation estimates at balance date. These are deducted from the gross outstanding claims liability to yield the net liability for outstanding claims. A prudential risk margin is then added to the net liability for outstanding claims.

## 3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

**Actuarial Assumptions**

**Processes Used To Determine Assumptions**
The following are a brief description of the source information for actuarial assumptions

**Inflation Rates**: based on forecasts of an independent third party economics research firm

**Discount Rates**: risk-free rates derived from the market yields on Government Bonds at balance date

**Claims Management Expenses**: derived from past experience and breakdown of expenses

**Reinsurance Recoveries**: based on expected claims currently estimated to exceed the reinsurance retention

**Risk Margin**: based on benchmark studies.

**Average Term to Settlement**: is calculated as the weighted average duration to payment of the estimated inflated and discounted cash flows

The following assumptions have been made in determining the outstanding claims liabilities for the State Government Insurance Corporation

| | 2007 | 2006 |
|---|---|---|
| Inflation Rate | Varies from 4.8% for 2008 down to 4.5% for 2009 and up to 4.7% for 2010 and later | 5.2% for 2007 up to 6.4% for 2009 and down to 3.9% for 2012 and later |
| Discount Rate | AUD – varies from 6.5% for 2008 and down to 6.2% for 2014 and later<br>GBP – varies from 5.8% for 2008 up to 5.9% for 2009 and down to 4.2% for 2027 and later<br>USD – varies from 5% for 2008 down to 4.9% for 2009 and up to 5.3% for 2018 and later | AUD – 5.9% for 2007 and later<br>GBP – 4.8% for 2007 up to 4.9% for 2007 and down to 3.8% for 2027 and later<br>USD – 5.2% for 2007 up to 5.3% for 2019 and later |
| Claims Management Expenses | 121% of gross claim payments | 93.1% of gross claim payments |
| Reinsurance Recoveries | 7.4% of gross claim payments | 5.8% of gross claim payments |
| Risk Margin | 14.1% of net claims outstanding. An additional precautionary margin has been added for two segments of the portfolio which have historically showed significant volatility. | 14.3% of net claims outstanding. An additional precautionary margin has been added for two segments of the portfolio which have historically showed significant volatility. |
| Average Term to Settlement | 5.7 years | 6.0 years |

**Sensitivity Analysis**

The table below illustrates how changes in key assumptions would impact the equity and profit after tax (assumed at a Corporate tax rate of 30%).

| | | Profit/(Loss) Increase/(Decrease) | |
|---|---|---|---|
| **Variable** | **Change in Variable %** | **Net of Reinsurance and Other Recoveries $'000** | **Gross $'000** |
| Inflation | +1 | (52) | (52) |
| Inflation | -1 | 50 | 50 |
| Discount | +1 | 132 | 137 |
| Discount | -1 | (148) | (153) |
| Claims Management Expenses | +10 | (121) | (121) |
| Claims Management Expenses | -10 | 122 | 122 |
| Assumed Loss Ratio for Australian Casualty Proportional | +5 | (62) | (62) |
| Assumed Loss Ratio for Australian Casualty Proportional | -5 | 62 | 62 |

## 4. INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES

The Corporation remains in existence to run-off small lines of Australian and overseas reinsurance business written by the Corporation between 1988 and 1992.

### (a) Objectives in Managing Risks Arising from Insurance Contracts and Policies for Mitigating those Risks

Key processes for the mitigation of risks faced in the operations of the Insurance Commission in its management of the Corporation include:

- Use of information systems to provide up-to-date, reliable data on the risks to which the Corporation is exposed.

- Independent Actuarial models, using data from the information systems, are used to monitor claims patterns, and in the production of statistical models to predict the outstanding liabilities for the various risks.

As the Corporation is in run-off the emerging payment patterns are highly variable and virtually impossible to predict. For this reason assets used to offset emerging liabilities are held in Australian cash funds.

### (b) Terms and Conditions of Insurance Risk

The terms and conditions under which inwards reinsurance business was placed through the operation of the Corporation were highly variable and in some cases extremely complex. The key issue being managed with the run-off of the fund is ensuring that all accounts being submitted are in accordance with the original contract terms.

### (c) Concentration Risk

The inwards reinsurance contracts in which the Corporation participated during its years of operation sought to mitigate concentration risk by the diversification of its portfolio across a number of product lines and geographical regions. As could be expected the majority of the benefit of the diversification has been consumed due to the shorter tail claims being settled some time ago, leaving a residual tail of claims originating from a far more concentrated risk base.

### (d) Development of Claims

As the majority of insurance contracts under management of the Insurance Commission deal with classes of insurance where the estimate of liability is subject to material change following the close of the contract period, a Claims Development Table has been provided in Note 12 which details outstanding claims estimates for underwriting years at successive year ends.

### (e) Liquidity Risk

The Insurance Commission is subject to daily calls upon its available cash resources for insurance policy claims. Liquidity risk is the risk that payments of obligations may not be met in a timely manner at a reasonable cost. The Corporation's liquidity is managed by the Insurance Commission. The Insurance Commission has in place policies and procedures to cover unexpected fluctuations in the levels of claims payments.

### (f) Interest Rate Risk

The Insurance Commission manages the Corporation's exposure to interest rate risk associated with assets and liabilities arising from insurance contracts, through strategies that seek to match the interest rate sensitivity of the assets to the underlying liabilities. Interest rate risk associated with the Corporation's bank account is managed by the Insurance Commission.

### (g) Credit Risk

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the Balance Sheet at the amount which best represents the maximum credit risk exposure.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 5. REVENUE AND INCOME

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| Premium Revenue | **(i)** | **150** | (128) |
| Reinsurance and Other Recoveries Revenue/(Expenses) | | **(4)** | (6) |
| Other Income | | | |
| - Interest Received from the Insurance Commission | **(ii)** | **1,238** | 88 |
| **Total Revenue and Income** | | **1,384** | (46) |

**(i)** The premium revenue incorporates premium adjustments from unclosed business

**(ii)** Interest received from the Insurance Commission in respect of the Non-Current Other Receivables (Refer Note 9)

## 6. EXPENSES

| | Notes | 2007 | 2006 |
|---|---|---|---|
| Claims Incurred Credit | | **(415)** | (433) |
| Acquisition Costs/(Benefits) | | **10** | (10) |
| Underwriting and Administration | | | |
| Impairment of Receivables | | **(17)** | **17** |
| Other Underwriting and Administration | **(i)** | **164** | 150 |
| | | **147** | 167 |
| **Total Expenses/(Benefits)** | | **(258)** | (276) |

**(i)** Includes management fee charged by the Insurance Commission which takes into account an amount of $13,000 (2006 - $13,600) in respect of amounts due or payable to the Auditor General for auditing the financial statements.

## 7. NET CLAIMS INCURRED

| | 2007 | 2006 |
|---|---|---|
| **Inwards Reinsurance** | | |
| Gross Claims Incurred and Related Expenses | | |
| - Undiscounted | **(755)** | (457) |
| Reinsurance and Other Recoveries | | |
| - Undiscounted | **4** | (1) |
| Net Claims Incurred - Undiscounted | **(751)** | (458) |
| Discount and Discount Movement | | |
| - Gross Claims Incurred | **340** | 24 |
| Discount and Discount Movement | | |
| - Reinsurance and Other Recoveries | **-** | 7 |
| **Net Discount Movement** | **340** | 31 |
| **Net Claims Incurred** | **(411)** | (427) |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 8. INCOME TAX EQUIVALENT

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **INCOME TAX EQUIVALENT EXPENSE/(BENEFIT)** | | |
| **Current Income Tax** | | |
| Current Income Tax Equivalent Expense | 487 | 94 |
| Adjustments in Respect of Current Income Tax of Previous Years | - | - |
| **Deferred Income Tax** | | |
| Relating to Origination and Reversal of Temporary Differences | 6 | (25) |
| Income Tax Equivalent Expense/(Benefit) Reported in the Income Statement | 493 | 69 |
| **AMOUNT RECOGNISED DIRECTLY IN EQUITY** | | |
| Deferred Income Tax Related to Items Charged or Credited Directly to Equity | | |
| Other | - | - |
| Income Tax Equivalent Expense/(Benefit) Reported in Equity | - | - |
| **RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE** | | |
| Profit Before Income Tax Equivalent Expense/(Benefit) | 1,642 | 230 |
| Tax at the Statutory Income Tax Rate of 30% (2006: 30%) | 493 | 69 |
| Recognition of Losses | - | - |
| Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years | - | - |
| Income Tax Equivalent Expense/(Benefit) | 493 | 69 |

| | Balance Sheet | | Income Statement | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **DEFERRED INCOME TAX** | | | | |
| Deferred Income Tax at 30 June relates to the following: | | | | |
| **Deferred Tax Assets** | | | | |
| Losses Available for Offset Against Future Taxable Income | - | - | | |
| Sundry | 508 | 514 | 6 | (25) |
| | 508 | 514 | | |
| Deferred Income Tax Equivalent Benefit | | | 6 | (25) |

**<u>Tax Consolidation</u>**

The Insurance Commission and its 100% owned Australian resident subsidiary the Corporation has formed a tax consolidated group with effect 1 from July 2002. The Insurance Commission is the head entity of the tax consolidated group.

**<u>Tax Effect Accounting by Members of the Tax Consolidated Group</u>**

Members of the tax consolidated group have entered into a tax funding agreement. Under the terms of the tax funding agreement the Insurance Commission and its subsidiary, the Corporation, have agreed to pay a tax equivalent payment to or from the head entity, based on "separate taxpayer within group" approach. Such amounts are reflected in amounts receivable from or payable to the Corporation.

## 9. RECEIVABLES

| | | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **Current** | | | |
| Reinsurance and Other Recoveries Receivable | | **10** | 217 |
| Less: Provision for Impairment | | **-** | (17) |
| | | **10** | 200 |
| **Non-Current** | | | |
| Reinsurance and Other Recoveries Receivable | | **72** | 76 |
| Other Receivables | **(i)** | **18,451** | 18,451 |
| | | **18,523** | 18,527 |
| **Movement in Provision for Impairment** | | | |
| Balance at Start of the Year | | **17** | - |
| Impairment Provision No Longer Required | | **(17)** | - |
| New Provision Made During the Year | | **-** | 17 |
| Balance at End of the Year | | **-** | 17 |

No amounts were required to be written off in 2007 in relation to Section 48 of the *Financial Management Act 2006*.

**(i)** Other Receivables relates to amounts due from the Insurance Commission in respect of deferred tax assets arising from past losses presented as an intercompany receivable in accordance with the tax sharing agreement and UIG 1052.

## 10. PAYABLES

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Current** | | |
| Sundry Creditors | **487** | - |
| Reinsurance Creditors | **16** | 447 |
| | **503** | 447 |

## 11. SHARE CAPITAL

| | 2007 SHARES | 2007 $'000 | 2006 SHARES | 2006 $'000 |
|---|---|---|---|---|
| Authorised Shares of $100 each | **1,000,000** | **100,000** | 1,000,000 | 100,000 |
| **Issued and paid-up share capital** | | | | |
| Balance at Beginning and End of the Period | **1,000,000** | **100,000** | 1,000,000 | 100,000 |

The ultimate holding entity is the Insurance Commission of Western Australia which holds all the shares issued by the Corporation.

## 12. OUTSTANDING CLAIMS LIABILITY

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Central Estimate | **2,157** | 2,822 |
| Discount to present value | **(758)** | (997) |
| | **1,399** | 1,825 |
| Claims Handlings Costs (discounted) | **1,693** | 1,697 |
| | **3,092** | 3,522 |
| Risk Margin | **425** | 491 |
| Additional Precautionary Margin | **542** | 636 |
| Gross Outstanding Claims Liability | **4,059** | 4,649 |
| | | |
| Current | **611** | 681 |
| Non-Current | **3,448** | 3,968 |
| | **4,059** | 4,649 |

**Liability for Outstanding Claims**

Refer Notes 2 and 3 for the methodologies and assumptions used to calculate the outstanding claims liability.

**Risk Margin**

**Process for Determining Risk Margin:**

The Corporation has adopted a risk margin in accordance with the Australian Prudential Regulation Authority (APRA) guidelines covering private insurers effective from 30 June 2002. Under this regime the central estimate is derived using risk-free rates based on yields from Commonwealth Government fixed-interest securities. The total provision is required to achieve a 75% probability of sufficiency based solely on liability risk (including inflation risk), with no allowance for asset risk, or asset returns above risk-free rates.

The 75% probability of sufficiency is estimated taking into account potential uncertainties relating to various actuarial assumptions and statistical modelling techniques, the underlying data quality, the general insurance and legal environments, and changes in social attitudes.

An additional precautionary margin has also been added for two segments of the portfolio which have historically shown significant volatility. The precautionary margin for the Minet Professional Indemnity Scheme in 2007 is $0.2 million (2006 $0.3 million) and Australian Casualty Proportional portfolio in 2007 is $0.3 million (2006 $0.4 million) based on ultimate loss ratio's of 163% and 185% respectively.

| Risk Margin Applied: | 2007 % | 2006 % |
|---|---|---|
| | **14.1** | 14.3 |

**Reconciliation of Movement in Discounted Outstanding Claims Liability**

| **Corporation - Inwards Reinsurance** | Gross $'000 | Reinsurance and Other Recoveries $'000 | Net $'000 |
|---|---|---|---|
| Outstanding Claims Liability as at 1 July 2006 | 4,649 | 88 | 4,561 |
| Effect of Changes in Assumptions/Experience | (334) | (10) | (324) |
| Increase in Expected Claims Incurred/Recoveries During Year | (81) | 4 | (85) |
| Incurred Claims Recognised in the Income Statement | (415) | (6) | (409) |
| Claim Payments/Recoveries During Year | (175) | - | (175) |
| **Outstanding Claims Liability as at 30 June 2007** | **4,059** | **82** | **3,977** |

## 12. OUTSTANDING CLAIMS LIABILITY (continued)

**Claims Development Table**

The Corporation has ceased writing insurance business and has been in run-off since August 1992. The long term nature of the expected term to settlement of these claims is also due to the latency associated with reinsurance claims and the nature of liability insurance. In view of this it is considered that provision of a table referenced to accident years is not appropriate. Consequently the table below lists developing claim costs over the past 5 years.

| | | Gross $'000 | Net $'000 |
|---|---|---|---|
| Estimated Ultimate Claims Cost as at 30 June: | | | |
| | **2003** | 51,333 | 39,191 |
| | **2004** | 50,235 | 37,899 |
| | **2005** | 49,857 | 37,522 |
| | **2006** | 49,362 | 37,026 |
| | **2007** | 49,053 | 36,717 |
| Current Estimate of Cumulative Claims Costs | | 49,053 | 36,717 |
| Cumulative Payments | | (46,896) | (34,720) |
| Outstanding Claims Undiscounted | | 2,157 | 1,997 |
| Discount | | (758) | (680) |
| Claims Management Expenses | | 1,693 | 1,693 |
| Risk Margin* | | 967 | 967 |
| **Total Outstanding Claims as per Balance Sheet** | | 4,059 | 3,977 |

* An additional precautionary margin has been added for two segments of the portfolio which have historically shown significant volatility. The precautionary margin for the Minet Professional Indemnity Scheme in 2007 is $0.2 million (2006: $0.3 million) and Australian Casualty Proportional portfolio in 2007 is $0.3 million (2006: $0.4 million) is derived, based on ultimate loss ratio's of 163% and 185% respectively.

## 13. FINANCIAL INSTRUMENTS

### (a) Interest Rate Risk Exposure

Interest rate risk is the risk that the Corporation will suffer a financial loss due to adverse movements in interest rates.

The following table details the Corporation's exposure to interest rate risk at balance date

| Current Year | 2007 ($'000) | | | |
|---|---|---|---|---|
| | Fixed Interest Rate Maturing in Less than 1 Year | Non-Interest Bearing | Total | Weighted Average Interest Rate (%) |
| **Financial Assets** | | | | |
| Cash and Cash Equivalent Assets | **2,343** | **-** | **2,343** | **5.65** |
| Total Financial Assets | **2,343** | **-** | **2,343** | |

| Previous Year | 2006 ($'000) | | | |
|---|---|---|---|---|
| | Fixed Interest Rate Maturing in Less than 1 Year | Non-Interest Bearing | Total | Weighted Average Interest Rate (%) |
| **Financial Assets** | | | | |
| Cash and Cash Equivalent Assets | 1,528 | - | 1,528 | 5.25 |
| Total Financial Assets | 1,528 | - | 1,528 | |

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **(b) Reconciliation of Net Financial Assets to Net Liabilities** | | | |
| Net Financial Assets | **13(a)** | **2,343** | 1,528 |
| Receivables (Current and Non-Current) | **9** | **18,533** | 18,727 |
| Deferred Tax Assets | **8** | **508** | 514 |
| Payables | **10** | **(503)** | (447) |
| Outstanding Claims Liability (Current and Non-Current) | **12** | **(4,059)** | (4,649) |
| Net Assets per Balance Sheet | | **16,822** | 15,673 |

### (c) Credit Risk Exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation.

The following table details the Corporation's maximum credit risk exposure at balance date without taking into account the value of any collateral or other security obtained. 100% of the Corporation's recognised financial assets are held in Australia. The Corporation's credit risk exposure is to one single counterparty, the financial assets having a Standard and Poor's rating of A1+.

| | 2007 | 2006 |
|---|---|---|
| Credit Risk Exposure | **2,343** | 1,528 |

### (d) Fair Value

The recognised financial assets and financial liabilities are carried at amounts that approximate fair value. All recognised financial assets and liabilities are readily traded on organised markets.

## 14. SEGMENT REPORTING

The general insurance activities of the Corporation relate to the run-off of its Inwards Reinsurance business. The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and 1992. The Inwards Reinsurance account was an international book of business, where half of the insured risks assumed were retrocessions from other reinsurers. The ultimate location of all the insured risks and/or the original risk carrier is therefore not readily identifiable.

As the Inwards Reinsurance account is in run-off it is considered that the disclosure of the net claims liabilities, which will be settled in Australian and foreign currencies, and the assets held to meet those net claims liabilities, would provide equivalent relevant information to users. Refer Note 15.

## 15. FUNDING OF INWARDS REINSURANCE NET CLAIMS LIABILITIES

Claims liabilities are payable in the currency designated by the Reinsurance agreement. The Corporation has a policy to hold assets only in Australian dollars (A$) to maximise interest earned on its total assets, also recognising the ongoing reduction in its currency liabilities and corresponding reducing exposure to currency fluctuations.

The following sets out the net liabilities in the respective currencies:

| | Currency of Exposure (in Australian dollars equivalent) | | | | |
|---|---|---|---|---|---|
| **30 June 2007** | **AUD $'000** | **CAD $'000** | **GBP $'000** | **USD $'000** | **Total $'000** |
| **Net Liability** | **2,696** | **8** | **183** | **1,090** | **3,977** |
| **Amount of Assets Held** | **2,343** | **-** | **-** | **-** | **2,343** |
| **Funding Deficit** | **(353)** | **(8)** | **(183)** | **(1,090)** | **(1,634)** |

| | Currency of Exposure (in Australian dollars equivalent) | | | | |
|---|---|---|---|---|---|
| **30 June 2006** | **AUD $'000** | **CAD $'000** | **GBP $'000** | **USD $'000** | **Total $'000** |
| Net Liability | 2,980 | 8 | 232 | 1,341 | 4,561 |
| Amount of Assets Held | 1,528 | - | - | - | 1,528 |
| Funding Deficit | (1,452) | (8) | (232) | (1,341) | (3,033) |

## 16. AMOUNTS RECEIVABLE AND PAYABLE DENOMINATED IN FOREIGN CURRENCIES (Australian dollars equivalent)

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Receivables** | | |
| Current | | |
| United States dollars | **2** | 2 |
| Non-Current | | |
| United States dollars | **11** | 13 |
| **Total Receivables** | **13** | 15 |
| **Payables** | | |
| Current | | |
| Canadian dollars | **1** | 1 |
| Great British pounds sterling | **28** | 35 |
| United States dollars | **254** | 307 |
| | **283** | 343 |
| Non-Current | | |
| Canadian dollars | **7** | 7 |
| Great British pounds sterling | **155** | 197 |
| United States dollars | **849** | 1,049 |
| | **1,011** | 1,253 |
| **Total Payables** | **1,294** | 1,596 |

### 17. EXPLANATORY STATEMENT

| | ACTUAL 2007 $'000 | BUDGET 2007 $'000 | ACTUAL 2006 $'000 | PROFIT INCREASE/(DECREASE) FROM ACTUAL 2007 TO BUDGET 2007 $'000 | BUDGET 2007 % | ACTUAL 2006 $'000 | ACTUAL 2006 % |
|---|---|---|---|---|---|---|---|
| Premium Revenue | **150** | **-** | (128) | **150** | **-** | 278 | 217.2 |
| Net Premium Revenue | **150** | **-** | (128) | **150** | **-** | 278 | 217.2 |
| Claims Incurred Credit | **415** | **171** | 433 | **244** | **142.7** | (18) | (4.2) |
| Reinsurance and Other Recoveries Revenue/(Expense) | **(4)** | **10** | (6) | **(14)** | **(140.0)** | 2 | 33.3 |
| Net Claims Incurred Credit | **411** | **181** | 427 | **230** | **127.1** | (16) | (3.7) |
| Acquisition Benefits/(Costs) | **(10)** | **-** | 10 | **(10)** | **-** | (20) | (200.0) |
| Underwriting and Administration Expenses | **(147)** | **(164)** | (167) | **17** | **10.4** | 20 | 12.0 |
| **UNDERWRITING RESULT** | **404** | **17** | 142 | **387** | **2,276.5** | 262 | 184.5 |
| Other Income | **1,238** | **71** | 88 | **1,167** | **1,643.7** | 1,150 | 1,306.8 |
| **PROFIT/(LOSS) BEFORE INCOME TAX EQUIVALENT BENEFIT/(EXPENSE)** | **1,642** | **88** | 230 | **1,554** | **1,765.9** | 1,412 | 613.9 |

The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and 1992. The general insurance activities of the Corporation relate to the run-off of its Inwards Reinsurance business. During the 2007 and 2006 financial years, the Corporation's only activity has been the winding down of this operation.

Due to the nature of reinsurance, it is expected that it will take a number of years for all claims to be finalised. Reinsurance is, by nature, highly variable, especially where there is a heavy exposure to the liability class of insurance. As a result, significant variations between actual and budget and the current and comparative years are expected to occur.

## 18. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities that materially affect the financial statements of the Corporation.

## 19. EXPENDITURE COMMITMENTS

There are no material expenditure commitments at balance date.

## 20. EVENTS OCCURRING AFTER BALANCE DATE

No events have occurred after balance date that materially affect the financial statements of the Corporation.

## 21. NOTES TO THE CASH FLOW STATEMENT

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Reconciliation of Profit After Income Tax Equivalent Benefit to Net Cash Flows Used in Operating Activities** | | |
| **Profit after Income Tax Equivalent Benefit** | **1,149** | 161 |
| **Non-Cash Items** | | |
| Impairment of Receivables | **(17)** | 17 |
| **Decrease/(Increase) in Assets** | | |
| Current Receivables | **207** | (22) |
| Non-Current Receivables | **4** | 94 |
| Non-Current Deferred Tax Assets | **6** | (25) |
| **Increase/(Decrease) in Liabilities** | | |
| Current Payables | **56** | 354 |
| Current Outstanding Claims Liability | **(70)** | (66) |
| Non-Current Outstanding Claims Liability | **(520)** | (518) |
| **Net Cash Used In Operating Activities** | **815** | (5) |

**Reconciliation of Cash**

Cash and Cash Equivalents at the end of the year as shown in the Cash Flow Statement is reconciled to the related items of the Balance Sheet as follows:

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Cash and Cash Equivalents | **2,343** | 1,528 |
| | **2,343** | 1,528 |

The Corporation has no stand-by credit arrangements or loan facilities. The Corporation's ability to meet its financial obligations as and when they fall due is ultimately supported by the Government of Western Australia. The cash detailed above is available to the Corporation without restriction.

# 2007

# Performance Indicators

## State Government Insurance Corporation

## CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the Performance Indicators of the State Government Insurance Corporation (Corporation) for the financial year ended 30 June 2007:

- are based on proper records;
- are relevant and appropriate for assisting users to assess the performance of the Corporation; and
- fairly represent the performance of the Corporation.

VIC EVANS
CHAIRMAN
12 September 2007

MICHAEL E WRIGHT
DEPUTY CHAIRMAN
12 September 2007

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 12 September 2007.

AUDITOR **GENERAL**

**INDEPENDENT AUDIT OPINION**

**To the Parliament of Western Australia**

**STATE GOVERNMENT INSURANCE CORPORATION**
**FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS**
**FOR THE YEAR ENDED 30 JUNE 2007**

I have audited the accounts, financial statements, controls and key performance indicators of the State Government Insurance Corporation.

The financial statements comprise the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, a summary of significant accounting policies and other explanatory Notes.

The key performance indicators consist of key indicators of effectiveness and efficiency.

**Corporation's Responsibility for the Financial Statements and Key Performance Indicators**

The Corporation is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions, and the key performance indicators. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements and key performance indicators that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and complying with the Financial Management Act 2006 and other relevant written law.

**Summary of my Role**

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements, controls and key performance indicators based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf".

An audit does not guarantee that every amount and disclosure in the financial statements and key performance indicators is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements and key performance indicators.

**Audit Opinion**

In my opinion,

(i) the financial statements are based on proper accounts and present fairly the financial position of the State Government Insurance Corporation at 30 June 2007 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions;

(ii) the controls exercised by the Corporation provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and

(iii) the key performance indicators of the Corporation are relevant and appropriate to help users assess the Corporation's performance and fairly represent the indicated performance for the year ended 30 June 2007.

COLIN MURPHY
AUDITOR GENERAL
12 September 2007

# Performance Indicators

## STATE GOVERNMENT INSURANCE CORPORATION

The State Government Insurance Corporation (Corporation) ceased underwriting Inwards Reinsurance in August 1992 and its remaining activity is the “run-off” of its Inwards Reinsurance business. The key effectiveness and efficiency Performance Indicators listed here for the Corporation only relate to this Inwards Reinsurance operation.

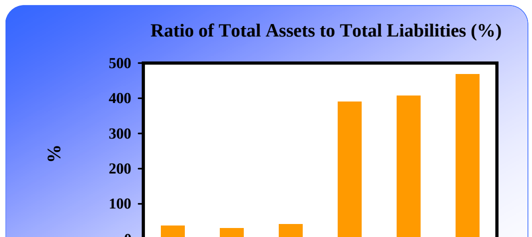
Where appropriate, prior-year figures have been restated in order to enhance comparability with those of the current year. Amounts prior to 2005 are not re-stated for AIFRS and are based on AGAAP.

### a) That The Corporation Has Sufficent Assets To Meet Its Liabilities.

***Effectiveness Performance Indicator***

The **Ratio of Total Assets to Total Liabilities** reflects the financial position of the Corporation at the end of the period.

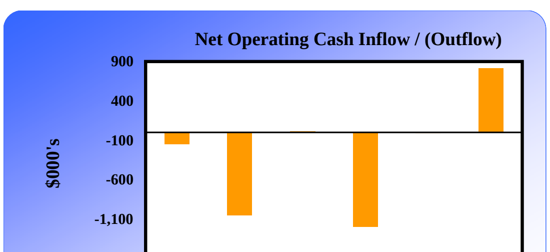
| | 2007 Actual |
|---|---|
| **Corporation** | **468.7%** |




| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Corporation | 37.3 | 30.6 | 42.3 | 391.3 | 407.6 | 468.7 |

***Comments:*** The improvement in the ratio is due to the Corporation moving to a surplus net assets position as a result of the recognition of a deferred tax asset in respect to future losses. There is a minor increase in total assets (3.0%) compared to 2006, but total liabilities decreased (10.50%) compared to 2006, mainly due to lower claims payments and a reduction in the outstanding claims liability.

***Efficiency Performance Indicator***




| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Corporation | (148) | (1,049) | 11 | (1,195) | (5) | 815 |

**Net Operating Cash Inflow / (Outflow)** equals receipts less payments from the operating activities of the Commission. *Refer to the Statement of Cash Flows - Net Cash Inflow from Operating Activities.*

| | 2007 Actual |
|---|---|
| **Corporation** | **815** |

***Comments:*** The small **"net operating cash inflow"** is a result of minor adjustments to premium and receipt of interest from the Insurance Commissioı in relation to the deferred asset held for future tax losses.

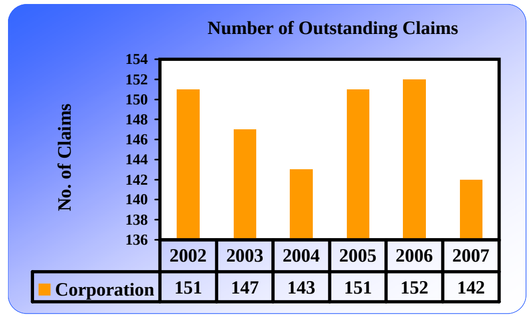
# Performance Indicators

**b) Minimise The Financial Liability of Insurers And Reinsurers.**

## *Effectiveness Performance Indicator*

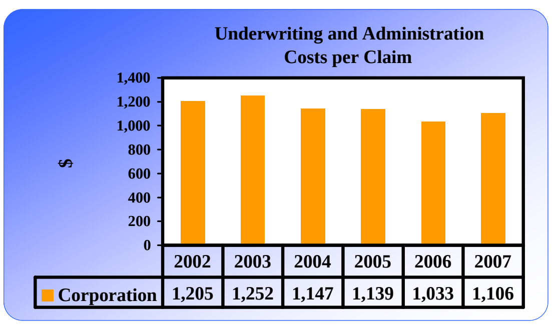
The **Number of Outstanding Claims** as at year end (accidents from all years). As the Corporation is in "run-off" it is desirable for there to be a downward trend in the number of claims still active.

| | 2007 Actual |
|---|---|
| Corporation | 142 |




***Comments:*** The **"number of outstanding claims"** is dependent on the claims settlement activity of re-insured parties. Minimal claims activity in 2007 resulted in a 6.6% reduction in outstanding claims compared to last year. A small number of inactive claims were finalised.

## *Efficiency Performance Indicator*




The **Underwriting and Administration Costs per Claim** indicator demonstrates how cost-efficient the claims management process is. Given the Corporation is in "run-off", the expected trend is for the overall underwriting and administration costs to diminish over time.

| 2007 Actual | |
|---|---|
| 1,106 | Corporation |

***Comments:*** There was minimal change in the **"underwriting and administration costs per claim"** compared to 2006, but the number of outstanding claims was 6.6% lower than 2006.

# GLOSSARY

The following definitions have been provided to assist readers in gaining a better understanding of the Annual Report and Financial Statements.

## 1. CLAIMS

**Central Estimate**

The estimate of the liability for outstanding claims based on a 50% level of confidence that the liability will be adequate in meeting the actual amount of claim liability to which it relates.

**Claims Expense**

The amount paid for losses suffered under the terms of an insurance policy/cover, adjusted for:

- claims which have been reported but not paid;
- claims incurred but not reported (IBNR);
- claims incurred but not enough reported (IBNER);

together with the anticipated direct and indirect claims settlement costs.

**Claims Handling/Management Expenses**

The costs incurred in relation to the administration and processing of claims.

**Discount Rate**

The rate used to adjust expected future payments for the time value of money.

**IBNR and IBNER Claims**

IBNR claims are claims arising from events which have occurred but have not been reported at balance date. IBNER claims are claims arising from events which have occurred and been reported at balance date, but the amount reported may be understated.

The liability for outstanding claims in the Statement of Financial Position includes a provision for both IBNR and IBNER claims.

**Inflation Rates**

Expected future payments are inflated to take account of increases in the general economy.

**Liability for Outstanding Claims**

A provision for the future estimated cost of claims outstanding at balance date. Outstanding claims incorporate those which have been reported but not paid, IBNRs and IBNERs, gross of any GST that may be paid.

## INDEX